

REFINITIV

# DELTA REPORT

## 10-Q

CLRO - CLEARONE INC

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 525

 CHANGES 135

 DELETIONS 188

 ADDITIONS 202

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June September 30, 2023

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33660

**CLEARONE, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

**87-0398877**

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(State or other jurisdiction of incorporation or organization)

(I.R.S. employer identification number)

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**5225 Wiley Post Way, Suite 500, Salt Lake City, Utah**

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**84116**

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(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (801) 975-7200

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.001	CLRO	The NASDAQ Capital Market

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Larger Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The number of shares of ClearOne common stock outstanding as of August 8, 2023 November 7, 2023 was 23,958,979. 23,960,684.

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## CLEARONE, INC.

### QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE SEPTEMBER 30, 2023

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## PART I - FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

**CLEARONE, INC**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except par value)

ASSETS	June 30,	December	September	December
	2023	31, 2022	30, 2023	31, 2022
Current assets:				
Cash and cash equivalents	\$ 15,086	\$ 984	\$ 13,694	\$ 984
Current marketable securities	6,408	—	5,698	—
Legal settlement receivable	—	55,000	—	55,000
Receivables, net of allowance of \$326	4,232	3,603	3,874	3,603
Inventories, net	7,547	8,961	8,664	8,961
Income tax receivable	6,381	1,071	6,381	1,071

Prepaid expenses and other assets	4,273	7,808	3,776	7,808
Total current assets	43,927	77,427	42,087	77,427
Long-term marketable securities	586	—	583	—
Long-term inventories, net	3,361	2,707	2,870	2,707
Property and equipment, net	614	383	590	383
Operating lease - right of use assets, net	1,171	1,047	1,081	1,047
Intangibles, net	1,903	2,071	1,794	2,071
Other assets	114	115	112	115
<b>Total assets</b>	<b>\$ 51,676</b>	<b>\$ 83,750</b>	<b>\$ 49,117</b>	<b>\$ 83,750</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable	\$ 2,435	\$ 1,284	\$ 1,759	\$ 1,284
Accrued liabilities	2,587	3,041	2,340	3,041
Deferred product revenue	52	63	38	63
Short-term debt	1,380	3,732	1,204	3,732
Total current liabilities	6,454	8,120	5,341	8,120
Operating lease liability, net of current	848	492	755	492
Other long-term liabilities	1,008	1,008	1,008	1,008
<b>Total liabilities</b>	<b>8,310</b>	<b>9,620</b>	<b>7,104</b>	<b>9,620</b>
Shareholders' equity:				
Common stock, par value \$0.001, 50,000,000 shares authorized, 23,958,979 and 23,955,767 shares issued and outstanding, respectively	24	24		
Common stock, par value \$0.001, 50,000,000 shares authorized, 23,960,684 and 23,955,767 shares issued and outstanding, respectively			24	24
Additional paid-in capital	45,979	74,910	46,015	74,910
Accumulated other comprehensive loss	(270)	(288)	(308)	(288)
Accumulated deficit	(2,367)	(516)	(3,718)	(516)
Total shareholders' equity	43,366	74,130	42,013	74,130
<b>Total liabilities and shareholders' equity</b>	<b>\$ 51,676</b>	<b>\$ 83,750</b>	<b>\$ 49,117</b>	<b>\$ 83,750</b>

*See accompanying notes*

**CLEARONE, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE LOSS**

(Dollars in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$ 5,483	\$ 7,375	\$ 9,661	\$ 14,920	\$ 4,889	\$ 6,264	\$ 14,550	\$ 21,184
Revenue								
Cost of goods sold	3,635	4,568	6,498	9,297	3,273	3,694	9,771	12,991
Gross profit	1,848	2,807	3,163	5,623	1,616	2,570	4,779	8,193
Operating expenses:								
Sales and marketing	1,323	1,562	2,515	3,122	1,119	1,151	3,634	4,273
Research and product development	873	1,177	1,916	2,530	889	876	2,805	3,406
General and administrative	1,007	1,717	2,276	3,473	1,097	1,673	3,373	5,146
Total operating expenses	3,203	4,456	6,707	9,125	3,105	3,700	9,812	12,825
Operating loss	(1,355)	(1,649)	(3,544)	(3,502)	(1,489)	(1,130)	(5,033)	(4,632)
Interest expense	(91)	(94)	(383)	(195)	(86)	(90)	(469)	(285)
Other income, net	437	1,505	2,103	1,508				
Other income (loss), net					243	(3)	2,346	1,505
Loss before income taxes	(1,009)	(238)	(1,824)	(2,189)	(1,332)	(1,223)	(3,156)	(3,412)

Provision for income taxes	10	19	27	35	19	25	46	60
Net loss	\$ (1,019)	\$ (257)	\$ (1,851)	\$ (2,224)	\$ (1,351)	\$ (1,248)	\$ (3,202)	\$ (3,472)
Basic weighted average shares outstanding	23,955,802	23,948,631	23,955,785	23,923,110	23,960,313	23,952,555	23,957,311	23,933,033
Diluted weighted average shares outstanding	23,955,802	23,948,631	23,955,785	23,923,110	23,960,313	23,952,555	23,957,311	23,933,033
Basic loss per share	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.09)	\$ (0.06)	\$ (0.05)	\$ (0.13)	\$ (0.15)
Diluted loss per share	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.09)	\$ (0.06)	\$ (0.05)	\$ (0.13)	\$ (0.15)
Comprehensive loss:								
Net loss	\$ (1,019)	\$ (257)	\$ (1,851)	\$ (2,224)	\$ (1,351)	\$ (1,248)	\$ (3,202)	\$ (3,472)
Unrealized loss on available-for-sale securities, net of tax	14	26	14	(2)	(31)	—	(17)	(2)
Change in foreign currency translation adjustment	(1)	(12)	4	(23)	(7)	(22)	(3)	(45)
Comprehensive loss	\$ (1,006)	\$ (243)	\$ (1,833)	\$ (2,249)	\$ (1,389)	\$ (1,270)	\$ (3,222)	\$ (3,519)

See accompanying notes

**CLEARONE, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands, except per share amounts)

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	\$ (1,851)	\$ (2,224)	\$ (3,202)	\$ (3,472)
<b>Cash flows from operating activities:</b>				
Net loss	\$ (1,851)	\$ (2,224)	\$ (3,202)	\$ (3,472)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>				
Depreciation and amortization expense	449	1,593	709	2,390
Amortization of right-of-use assets	217	300	306	449
Share-based compensation expense	47	65	80	90
Change of inventory to net realizable value	103	27	105	221
Gain recognized on Paycheck Protection Plan Loan forgiveness	—	(1,528)	—	(1,528)
Gain (loss) on disposal of assets and sale of marketable securities			(12)	—
<b>Changes in operating assets and liabilities:</b>				
Receivables	(629)	879	(271)	868
Legal settlement receivable	55,000	—	55,000	—
Inventories	657	730	29	710
Prepaid expenses and other assets	3,536	1,097	4,035	2,051
Accounts payable	1,151	(3,341)	475	(3,336)
Accrued liabilities	(204)	33	(448)	(54)
Income taxes receivable	(5,310)	—	(5,310)	—
Deferred product revenue	(11)	(11)	(25)	19
Operating lease liabilities	(235)	(312)	(328)	(468)
Net cash provided by (used in) operating activities	<u>52,920</u>	<u>(2,692)</u>	<u>51,143</u>	<u>(2,060)</u>
<b>Cash flows from investing activities:</b>				
Purchase of property and equipment	(326)	(16)	(372)	(17)
Purchase of intangibles	(79)	(58)	(111)	(93)
Capitalized patent defense costs	—	(497)	—	(642)
Proceeds from maturities and sales of marketable securities	2,344	3,008	3,094	3,008
Purchases of marketable securities	<u>(9,332)</u>	<u>—</u>	<u>(9,389)</u>	<u>—</u>

Net cash provided by (used in) investing activities	(7,393)	2,437	(6,778)	2,256
Cash flows from financing activities:				
Dividend payment	(28,979)	—	(28,979)	—
Net proceeds from equity-based compensation programs	1	2	4	3
Paycheck Protection Program loan refund upon full forgiveness net of loan payments	—	768	—	768
Principal payments of debt	(2,450)	(360)	(2,675)	(540)
Net cash provided by (used in) financing activities	(31,428)	410	(31,650)	231
Effect of exchange rate changes on cash and cash equivalents	3	(23)	(5)	(48)
Net increase in cash and cash equivalents	14,102	132	12,710	379
Cash and cash equivalents at the beginning of the period	984	1,071	984	1,071
Cash and cash equivalents at the end of the period	\$ 15,086	\$ 1,203	\$ 13,694	\$ 1,450

*See accompanying notes*

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**CLEARONE, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands, except per share amounts)

The following is a summary of supplemental cash flow activities:

	Six Months Ended June 30,		Nine Months Ended September 30,	
			2023	2022
Cash paid for income taxes	\$ 6,631	\$ 39	\$ 6,650	\$ 68
Cash paid for interest	273	97	311	140

*See accompanying notes*

**CLEARONE, INC.****UNAUDITED UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited - Dollars in thousands, except per share amounts)

**1. Business Description, Basis of Presentation and Significant Accounting Policies*****Business Description:***

ClearOne, Inc., together with its subsidiaries (collectively, "ClearOne" or the "Company"), is a global market leader enabling conferencing, collaboration, and AV streaming solutions for voice and visual communications. The performance and simplicity of our advanced, comprehensive solutions offer unprecedented levels of functionality, reliability and scalability.

***Basis of Presentation:***

The fiscal year for ClearOne is the twelve months ending on December 31. The condensed consolidated financial statements include the accounts of ClearOne and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

These accompanying interim unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are not audited. Certain information and footnote disclosures that are usually included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been either condensed or omitted in accordance with SEC rules and regulations. The accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of **June 30, 2023** **September 30, 2023** and December 31, 2022, the results of operations for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022, and the cash flows for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022. The results of operations for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 are not necessarily indicative of the results for a full-year period. These interim unaudited condensed consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC.

***Significant Accounting Policies:***

The significant accounting policies were described in Note 1 to the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2022. There have been no changes to these policies during the quarter ended **June 30, 2023** **September 30, 2023** that are of significance or potential significance to the Company.

*Recent accounting pronouncements:*

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326). The new standard amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. In February 2020, the FASB issued ASU 2020-02, Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842), which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments will be effective for the Company for interim and annual periods in fiscal years beginning after December 15, 2022. CECL estimates of expected credit losses on trade receivables over their life will be required to be recorded at inception, based on historical information, current conditions, and reasonable and supportable forecasts. The Company adopted the standard in its first quarter of 2023. There was no material impact on the results of operations.

The Company has determined that recently issued accounting standards, other than the above discussed, will not have a material impact on its consolidated financial position, results of operations or cash flows.

**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands, except per share amounts)

***Liquidity:***

As of **June** **September** 30, 2023, our cash and cash equivalents were approximately **\$15,086** **\$13,694** compared to **\$984** as of December 31, 2022. Our working capital was **\$37,473** **\$36,746** as of **June** **September** 30, 2023. Net cash provided by operating activities was **\$52,920** **\$51,143** for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, an increase of **\$55,612** **\$53,203** compared to **\$2,692** **\$2,060** of cash used in operating activities for the **six** **nine** months ended **June 30, 2022** **September 30, 2022**. The Company believes, although there can be no assurance, that the current cash position and effective management of working capital, will provide the liquidity needed to meet our operating needs through at least **August 10, November 8, 2024**. The Company also believes that its strong portfolio of intellectual property and its solid brand equity in the market will enable it to raise additional capital if and when needed to meet its short and long-term financing needs; however, there can be no assurance that, if needed, the Company will be successful in obtaining the necessary funds through equity or debt financing on favorable terms or at all. If the Company needs additional capital and is unable to secure financing, it may be required to further reduce expenses, or delay product development and enhancement.

**2. Revenue Information**

The following table disaggregates the Company's revenue into primary product groups:

	Three months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	Three months ended June 30,		Six months ended June 30,		2023	2022	2023	2022
	2023	2022	2023	2022	2023	2022	2023	2022
Audio conferencing	\$ 2,289	\$ 3,277	\$ 4,618	\$ 6,453	\$ 1,867	\$ 3,201	\$ 6,484	\$ 9,655
Microphones	2,688	3,123	3,883	6,051	2,355	2,475	6,239	8,525
Video products	506	975	1,160	2,416	667	588	1,827	3,004
	<b>\$ 5,483</b>	<b>\$ 7,375</b>	<b>\$ 9,661</b>	<b>\$ 14,920</b>	<b>\$ 4,889</b>	<b>\$ 6,264</b>	<b>\$ 14,550</b>	<b>\$ 21,184</b>

The following table disaggregates the Company's revenue into major regions:

	Three months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	Three months ended June 30,		Six months ended June 30,		2023	2022	2023	2022
	2023	2022	2023	2022	2023	2022	2023	2022
North and South America	\$ 3,384	\$ 3,184	\$ 4,954	\$ 6,960	\$ 2,400	\$ 3,251	\$ 7,353	\$ 10,211
Asia Pacific (includes Middle East, India and Australia)	1,672	2,468	3,368	4,542	2,058	2,018	5,426	6,560
Europe and Africa	427	1,723	1,339	3,418	431	995	1,771	4,413
	<b>\$ 5,483</b>	<b>\$ 7,375</b>	<b>\$ 9,661</b>	<b>\$ 14,920</b>	<b>\$ 4,889</b>	<b>\$ 6,264</b>	<b>\$ 14,550</b>	<b>\$ 21,184</b>

### UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

#### 3. Loss Per Share

Loss per common share is computed based on the weighted-average number of common shares outstanding and, when appropriate, dilutive potential common stock outstanding during the period. Stock options, warrants and the convertible portion of senior convertible notes are considered to be potential common stock. The computation of diluted earnings (loss) per share does not assume exercise or conversion of securities that would have an anti-dilutive effect.

Basic earnings (loss) per common share is the amount of net earnings (loss) for the period available to each weighted-average share of common stock outstanding during the reporting period. Diluted earnings (loss) per common share is the amount of earnings (loss) for the period available to each weighted-average share of common stock outstanding during the reporting period and to each share of potential common stock outstanding during the period, unless inclusion of potential common stock would have an anti-dilutive effect.

The following table sets forth the computation of basic and diluted earnings (loss) per common share:

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
<b>Numerator:</b>								
Net loss	\$ (1,019)	\$ (257)	\$ (1,851)	\$ (2,224)	\$ (1,351)	\$ (1,248)	\$ (3,202)	\$ (3,472)
<b>Denominator:</b>								
Basic weighted average shares outstanding	23,955,802	23,948,631	23,955,785	23,923,110	23,960,313	23,952,555	23,957,311	23,933,033
Dilutive common stock equivalents using treasury stock method	—	—	—	—	—	—	—	—
Diluted weighted average shares outstanding	23,955,802	23,948,631	23,955,785	23,923,110	23,960,313	23,952,555	23,957,311	23,933,033
Basic loss per common share	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.09)	\$ (0.06)	\$ (0.05)	\$ (0.13)	\$ (0.15)
Diluted loss per common share	\$ (0.04)	\$ (0.01)	\$ (0.08)	\$ (0.09)	\$ (0.06)	\$ (0.05)	\$ (0.13)	\$ (0.15)
Weighted average options, warrants and convertible portion of senior convertible notes outstanding	6,287,019	6,937,350	6,327,495	6,999,665	6,294,994	6,694,433	6,316,137	6,896,803
Anti-dilutive options, warrants and convertible portion of senior convertible notes not included in the computation	6,287,019	6,937,350	6,327,495	6,999,665	6,294,994	6,694,433	6,316,137	6,896,803

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

### 4. Marketable Securities

The Company has classified its marketable securities as available-for-sale securities. These securities are carried at estimated fair value with unrealized holding gains and losses included in accumulated other comprehensive loss in stockholders' equity until realized. Gains and losses on marketable security transactions are reported on the specific-identification method. Dividend and interest income are recognized when earned.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value for available-for-sale securities by major security type and class of securities as of **June** **September** 30, 2023 were as follows:

	June 30, 2023				September 30, 2023			
	Gross unrealized holding gains		Gross unrealized holding losses		Gross unrealized holding gains		Gross unrealized holding losses	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Available-for-sale securities:								
US Treasury securities	\$ 3,739	\$ 18	\$ —	\$ 3,757	\$ 3,281	\$ —	\$ (3)	\$ 3,278
Mutual funds	1,168	3	(5)	1,166	1,169	2	—	1,171
Certificates of deposit	1,098	1	—	1,099	859	—	—	859
Corporate bonds and notes	\$ 974	\$ —	\$ (2)	\$ 972	\$ 989	\$ —	\$ (16)	\$ 973

Total available-for-sale securities	\$ 6,979	\$ 22	\$ (7)	\$ 6,994	\$ 6,298	\$ 2	\$ (19)	\$ 6,281
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There were no available-for-sale securities as of December 31, 2022.

		Estimated fair value	
		Amortized cost	Estimated fair value
Due within one year		\$ 5,715	\$ 5,698
Due after one year through five years		583	583
Due after five years			Estimated fair value
Total available-for-sale securities		\$ 6,298	\$ 6,281
Due within one year		\$ 6,398	\$ 6,408
Due after one year through five years		583	586
10		—	—
Due after five years		—	—
Total available-for-sale securities		\$ 6,979	\$ 6,994

#### UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

Debt securities in an unrealized loss position as of **June 30, 2023** **September 30, 2023** were not deemed impaired at acquisition and subsequent declines in fair value are not deemed attributed to declines in credit quality. Management believes that it is more likely than not that the securities will receive a full recovery of par value, although there can be no assurance that such recovery will occur. The available-for-sale marketable securities with continuous gross unrealized loss position for less than 12 months and 12 months or greater and their related fair values were as follows:

	Less than 12 months		More than 12 months		Total	
	Gross	unrealized	Gross	unrealized	Gross	unrealized
As of September 30, 2023	Less than 12 months	unrealized	More than 12 months	unrealized	Total	unrealized
US Treasury securities	Estimated fair value	Gross losses	Estimated fair value	Gross losses	Estimated fair value	Gross losses
Corporate bonds and notes	\$ 3,278	\$ holding (3)	\$ 973	\$ losses (16)	\$ 3,278	\$ holding (3)
Total	\$ 4,251	\$ (19)	\$ —	\$ —	\$ 4,251	\$ (19)
Mutual funds	\$ 1,166	\$ (5)	\$ —	\$ —	\$ 1,166	\$ (5)
Intangible assets as of <b>June 30, 2023</b> <b>September 30, 2023</b> and December 31, 2022 consisted of the following:					972	(2)
Total	\$ 2,138	\$ (7)	\$ —	\$ —	\$ 2,138	\$ (7)

	Estimated useful lives (years)	Estimated		Estimated		
		June 30, 2023		December 31, 2022	lives	September 30, 2023
		5 to 7	\$ 555	\$ 555	5 to 7	\$ 555
Tradename	5 to 7	\$ 555	\$ 555	5 to 7	\$ 555	\$ 555
Patents and technological know-how	10 to 20	7,132	7,053	10 to 20	7,164	7,053
Proprietary software	3 to 15	2,981	2,981	3 to 15	2,981	2,981
Other	3 to 5	323	323	3 to 5	323	323
Total intangible assets		10,991	10,912		11,023	10,912
Accumulated amortization		(9,088)	(8,841)		(9,229)	(8,841)
Total intangible assets, net		\$ 1,903	\$ 2,071		\$ 1,794	\$ 2,071

The amortization of intangible assets for the three and **six** months ended **June 30, 2023** **September 30, 2023** and 2022 was as follows:

	Three months ended June				Six months ended June 30,			
	30,		September 30,		2023		2022	
	2023	2022	2023	2022	2023	2022	2023	2022
Amortization of intangible assets	\$ 129	\$ 682	\$ 247	\$ 1,352				
	<b>Three months ended</b>	<b>September 30,</b>	<b>Nine months ended</b>	<b>September 30,</b>				
Amortization of intangible assets	\$ 141	\$ 686	\$ 388	\$ 2,038				

The estimated future amortization expense of intangible assets is as follows:

Years ending December 31,	Amount	Amount
2023 (Remainder)	\$ 269	\$ 129
2024	253	255
2025	192	194
2026	191	193
2027	61	63
Thereafter	937	960
<b>Total</b>	<b>\$ 1,903</b>	<b>\$ 1,794</b>

#### UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

## 6. Inventories

Inventories, net of reserves, as of **June 30, 2023** **September 30, 2023** and December 31, 2022 consisted of the following:

	<b>June 30, 2023</b>	<b>December 31, 2022</b>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Current:</b>				
Raw materials	\$ 3,388	\$ 4,499	\$ 3,210	\$ 4,499
Finished goods	4,159	4,462	5,454	4,462
	<b>\$ 7,547</b>	<b>\$ 8,961</b>	<b>\$ 8,664</b>	<b>\$ 8,961</b>
<b>Long-term:</b>				
Raw materials	\$ 1,551	\$ 1,068	\$ 1,302	\$ 1,068
Finished goods	1,810	1,639	1,568	1,639
	<b>\$ 3,361</b>	<b>\$ 2,707</b>	<b>\$ 2,870</b>	<b>\$ 2,707</b>

Long-term inventory represents inventory held in excess of our current (next 12 months) requirements based on our recent sales and forecasted level of sales. We expect to sell the above inventory, net of reserves, at or above the stated cost and believe that no loss will be incurred on its sale, although there can be no assurance of the timing or amount of any sales.

Net loss incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory for three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was as follows:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Three months ended September 30,</b>	<b>September 30,</b>	<b>Nine months ended September 30,</b>	<b>September 30,</b>
Net loss incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory	\$ 80	\$ 27	\$ 103	\$ 27
Net loss incurred on valuation of inventory at lower of cost or <b>Leases</b> value and write-off of obsolete inventory	\$ 3	\$ 194	\$ 105	\$ 221

Rent expense is recognized on a straight-line basis over the period of the lease taking into account future rent escalation and holiday periods.

Rent expense for three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and 2022 was as follows:

	<b>2023</b>	<b>2022</b>

	Three months ended June 30,				Six months ended June 30,			
	Three months ended September 30,		Nine months ended September 30,		Nine months ended September 30,		Six months ended June 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Rent expense	\$ 110	\$ 170	\$ 259	\$ 349				

The Company occupies a 1,350 square-foot facility in Gainesville, Florida under the terms of an operating lease expiring in February 2028. The Gainesville facility is used primarily to support the Company's research and development activities.

The Company occupies a 9,402 square-foot facility in Salt Lake City, Utah under the terms of an operating lease expiring in February 2028. The facility supports the Company's principal administrative, sales, marketing, customer support, and research and product development activities.

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#### UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

The Company occupies a 6,175 square-foot facility in Chennai, India under the terms of an operating lease expiring in August 2023. This facility supports the Company's administrative, marketing, customer support, and research and product development activities. The Company is planning to renew the lease.

The Company occupies a 40,000 square-foot warehouse in Salt Lake City, Utah under the terms of an operating lease expiring in April 2025, which serves as the Company's primary inventory fulfillment center.

Supplemental cash flow information related to leases was as follows:

	Six months ended June 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
	Cash paid for amounts included in the measurement of lease liabilities	Operating cash flows from operating leases	Right-of-use assets obtained in exchange for lease obligations:	Operating leases				
	\$ (264)	\$ (356)	\$ 378	\$ 531				
	\$ 341	\$ —	\$ 341	\$ —				

Supplemental balance sheet information related to leases was as follows:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Operating lease right-of-use assets	\$ 1,171	\$ 1,047	\$ 1,081	\$ 1,047
Current portion of operating lease liabilities, included in accrued liabilities	\$ 391	\$ 641	\$ 390	\$ 641
Operating lease liabilities, net of current portion	848	492	755	492
Total operating lease liabilities	\$ 1,239	\$ 1,133	\$ 1,145	\$ 1,133
Weighted average remaining lease term for operating leases (in years)	3.74	2.12	3.56	2.12
Weighted average discount rate for operating leases	6.40%	5.93%	6.43%	5.93%

The following represents maturities of operating lease liabilities as of June 30, 2023 September 30, 2023:

Years ending December 31,			
2023 (Remainder)		\$ 228	\$ 114
2024		439	439
2025		272	272
2026		210	210
2027		216	216
Thereafter		37	38
Total lease payments		1,402	1,289
Less: Imputed interest		(163)	(144)
Total		\$ 1,239	\$ 1,145

#### UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited - Dollars in thousands, except per share amounts)

#### 8. Shareholders' Equity

Three months ended June 30,	Six Months Ended June 30,	Three months ended September 30,	Nine Months Ended September 30,
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	2023	2022	2023	2022	2023	2022	2023	2022
<b>Common stock and additional paid-in capital</b>								
Balance, beginning of period	\$ 74,957	\$ 74,855	\$ 74,934	\$ 72,818	\$ 46,003	\$ 74,885	\$ 74,934	\$ 72,817
Dividends paid	(28,979)	—	(28,979)	—	—	—	(28,979)	—
Issuance of common stock and warrants, net	—	—	—	2,000	—	—	—	2,000
Share-based compensation expense	25	30	47	65	33	24	80	90
Proceeds from employee stock purchase plan	—	—	1	2	3	1	4	3
Balance, end of period	<u>\$ 46,003</u>	<u>\$ 74,885</u>	<u>\$ 46,003</u>	<u>\$ 74,885</u>	<u>\$ 46,039</u>	<u>\$ 74,910</u>	<u>\$ 46,039</u>	<u>\$ 74,910</u>
<b>Accumulated other comprehensive loss</b>								
Balance, beginning of period	\$ (283)	\$ (280)	\$ (288)	\$ (241)	\$ (270)	\$ (266)	\$ (288)	\$ (241)
Unrealized loss on available-for-sale securities, net of tax	14	26	14	(2)	(31)	—	(17)	(2)
Foreign currency translation adjustment	(1)	(12)	4	(23)	(7)	(22)	(3)	(45)
Balance, end of period	<u>\$ (270)</u>	<u>\$ (266)</u>	<u>\$ (270)</u>	<u>\$ (266)</u>	<u>\$ (308)</u>	<u>\$ (288)</u>	<u>\$ (308)</u>	<u>\$ (288)</u>
<b>Accumulated deficit</b>								
Balance, beginning of period	\$ (1,348)	\$ (23,039)	\$ (516)	\$ (21,072)	\$ (2,367)	\$ (23,296)	\$ (516)	\$ (21,072)
Net loss	(1,019)	(257)	(1,851)	(2,224)	(1,351)	(1,248)	(3,202)	(3,472)
Balance, end of period	<u>\$ (2,367)</u>	<u>\$ (23,296)</u>	<u>\$ (2,367)</u>	<u>\$ (23,296)</u>	<u>\$ (3,718)</u>	<u>\$ (24,544)</u>	<u>\$ (3,718)</u>	<u>\$ (24,544)</u>
Total shareholders' equity	<u>\$ 43,366</u>	<u>\$ 51,323</u>	<u>\$ 43,366</u>	<u>\$ 51,323</u>	<u>\$ 42,013</u>	<u>\$ 50,078</u>	<u>\$ 42,013</u>	<u>\$ 50,078</u>

#### Issue of Common Stock and Warrants

On September 12, 2021, the Company entered into a securities purchase agreement with certain purchasers named therein, pursuant to which the Company issued 3,623,189 shares of the Company's common stock, par value \$0.001 per share at an offering price of \$2.76 per share. The Company received gross proceeds of approximately \$10,000 and net proceeds of \$9,288 after deducting placement agent fees and related offering expenses. In a concurring private placement the Company also issued to the same purchasers warrants exercisable for an aggregate of 3,623,189 shares of common stock at an exercise price of \$2.76 per share. Each warrant became immediately exercisable and will expire on March 15, 2027.

On January 4, 2022, the Company entered into a Securities Purchase Agreement with Edward D. Bagley, an affiliate of the Company, pursuant to which the Company agreed to issue and sell, in a private placement 1,538,461 shares (the "Shares") of the Company's common stock, par value \$0.001 per share, at a purchase price of \$1.30 per share of Common Stock. The consideration for the Shares is the cancellation and termination of Mr. Bagley's outstanding bridge loan to the Company in the principal amount of \$2,000 originally issued on July 2, 2021 and amended and restated on September 11, 2021. Mr. Bagley is an affiliate of the Company and the Company's single largest stockholder.

### **Cash Dividend Distribution**

On May 8, 2023, the Company announced that the Company's Board of Directors had declared a special one-time cash dividend of \$1.00 per share of the Company's common stock or eligible warrants and paid \$28,978 of cash dividends on May 31, 2023 to shareholders of record on May 22, 2023.

### **Nasdaq Delisting Notification**

On August 1, 2023, the Company received a letter (the "Notice") from the Listing Qualifications Department (the "Staff") of the Nasdaq Stock Market ("Nasdaq") informing management that because the closing bid price for the Company's common stock listed on Nasdaq was below \$1.00 for 30 consecutive trading days, the Company is not in compliance with the minimum bid price requirement for continued listing on the Nasdaq Capital Market, as set forth in Nasdaq Marketplace Rule 5550(a)(2) (the "Minimum Bid Price Requirement"). In accordance with Nasdaq Marketplace Rule 5810(c)(3)(A), the Company was granted a period of 180 calendar days from August 1, 2023, or until January 29, 2024, to regain compliance with the Minimum Bid Price Requirement. The Company's common stock has continued to trade below \$1.00 per share.

### **UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands, except per share amounts)

#### **9. Debt**

##### **Senior Convertible Notes and Warrants**

On December 17, 2019, the Company completed the issuance and sale of \$3,000 aggregate principal amount of secured convertible notes of the Company (the "Notes") and warrants (the "Warrants") to purchase 340,909 shares of common stock, par value \$0.001 per share of the Company (the "Common Stock"), in a private placement transaction. The Notes and Warrants were issued and sold to Edward D. Bagley, an affiliate of the Company, on the terms and conditions of a Note Purchase Agreement dated December 8, 2019 between the Company, certain subsidiary guarantors of the Company, and Mr. Bagley. Mr. Bagley was the beneficial owner of approximately 46.6% of the Company's issued and outstanding shares of Common Stock at the time that the Notes and Warrants were issued to him.

The Notes will mature on December 17, 2023 (the "Maturity Date") and will accrue interest at a variable rate adjusted on a quarterly basis and equal to two and one-half percent (2.5%) over the greater of (x) five and one-quarter percent (5.25%) and (y) the Prime Rate as published in the Wall Street Journal (New York edition) as of the beginning of such calendar quarter. The Notes may be converted into shares of the Company's Common Stock at any time at the election of Mr. Bagley at an initial conversion price of \$2.11 per share (the "Conversion Price"), or 120% of the closing price of the Common Stock on December 6, 2019 as reported on the Nasdaq Capital Market. Also, the Company can cause a mandatory conversion of the Notes if the volume weighted average closing price of the Common Stock over 90 consecutive trading days exceeds 200% of the Conversion Price. In addition, the Notes may be redeemed by the Company for cash at any time after December 17, 2020 upon payment of the outstanding principal balance of the Notes and any unpaid and accrued interest. The Company also is required to redeem the Notes upon the occurrence of a change in control of the Company.

The Warrants have an initial exercise price equal to \$1.76, the closing price of the Common Stock on December 6, 2019 as reported on the Nasdaq Capital Market, and are exercisable until December 17, 2026. The Warrants must be exercised for cash, unless at the time of exercise there is not a then effective registration statement for the resale of the shares of Common Stock issuable upon exercise of the Warrants, in which case the Warrants may be exercised via a cashless exercise feature that provides for net settlement of the shares of Common Stock issuable upon exercise.

Concurrent with the issuance of the Notes and Warrants pursuant to the Note Purchase Agreement, the Company, the Guarantors and Mr. Bagley entered into a Guaranty and Collateral Agreement (the "Collateral Agreement") pursuant to which the Company and the Guarantors granted Mr. Bagley a first priority lien interest in all of the Company's assets as security for the Company's performance of its obligations under the Notes and Warrants.

The net proceeds after original issue discount and issuance costs of \$346 were approximately \$2,654. The Company expected to use the proceeds from the sale of the Notes and Warrants for general corporate purposes and working capital.

In accounting for the issuance of the Notes, the Company separated Notes and Warrants into liability and equity components. The carrying amount of Warrants, being an equity component, was first calculated using Black-Scholes method with the following assumptions:

Risk-free interest rate	1.82%
Expected life of warrants (years)	7
Expected price volatility	49.4%
Expected dividend yield	0%

The carrying amount of the Notes was then determined by deducting the fair value of the Warrants from the principal amount of the Notes. The carrying amount of the Notes was further separated into equity and liability components after separating the value of the conversion feature into an equity component and leaving the remaining value as liability. The equity component is not remeasured while the Notes and Warrants continue to meet the conditions for equity classification for equity components.

The original issue discount and issuance costs are netted against the liability. The following table represents the carrying value of Notes and Warrants:

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**UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in thousands, except per share amounts)

	<b>June 30, 2023</b>	<b>December 31, 2022</b>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Liability component:</b>				
Principal	\$ 1,470	\$ 1,920	\$ 1,245	\$ 1,920
Less: debt discount and issuance costs, net of amortization	(90)	(188)	(41)	(188)
Net carrying amount	<u>\$ 1,380</u>	<u>\$ 1,732</u>	<u>\$ 1,204</u>	<u>\$ 1,732</u>
<b>Equity component<sup>(1)</sup>:</b>				
Warrants	\$ 318	\$ 318	\$ 318	\$ 318
Conversion feature	122	122	122	122
Net carrying amount	<u>\$ 440</u>	<u>\$ 440</u>	<u>\$ 440</u>	<u>\$ 440</u>
Current portion of liability component included under short-term debt	<u>\$ 1,470</u>	<u>\$ 1,920</u>	<u>\$ 1,245</u>	<u>\$ 1,920</u>
<b>Liability component total</b>	<u><u>\$ 1,470</u></u>	<u><u>\$ 1,920</u></u>	<u><u>\$ 1,245</u></u>	<u><u>\$ 1,920</u></u>

(1) Recorded on the condensed consolidated balance sheets as additional paid-in capital.

Debt discount and issuance costs are amortized over the life of the note to interest expense using the effective interest method. During the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** amortization of debt discount and issuance costs was \$49 and \$98 \$147, respectively and for the three and **six** **nine** months ended **June 30, 2022** **September 30, 2022** amortization of debt discount and issuance costs was \$49 and \$98 \$147, respectively. The following table represents schedule of maturities of principal amount contained in the Notes as of **June 30, 2023** **September 30, 2023**:

<b>Year ending December 31,</b>	<b>Principal Amount Maturing</b>	<b>Principal Amount Maturing</b>
2023 (Remainder)	1,470	1,245
Total principal amount	<u>\$ 1,470</u>	<u>\$ 1,245</u>

**Short-term Bridge Loans**

On July 2, 2021, the Company obtained a bridge loan in the principal amount of \$2,000 from Edward D. Bagley (the "2021 Bridge Loan"), an affiliate of the Company. The Bridge Loan was evidenced by a promissory note dated July 2, 2021 (the "Note")

issued by the Company to Mr. Bagley. The Note bore interest at a rate of 8.0% per annum. On September 11, 2021, the Company amended and restated the terms of the Bridge Loan to extend the latest maturity date from October 1, 2021 to January 3, 2022. All other terms and conditions of the Bridge Loan remained the same. On January 4, 2022, the Company entered into a Securities Purchase Agreement with Edward D. Bagley, pursuant to which the Company issued and sold to Mr. Bagley, in a private placement 1,538,461 shares (the "Shares") of the Company's common stock, par value \$0.001 per share, at a purchase price of \$1.30 per share of Common Stock. The consideration for the Shares was the cancellation and termination of Mr. Bagley's outstanding bridge loan to the Company in the principal amount of \$2,000 originally issued on July 2, 2021 and amended and restated on September 11, 2021. Mr. Bagley is an affiliate of the Company and the Company's single largest stockholder.

On October 28, 2022 the Company obtained a bridge loan in the principal amount of \$2,000 from Edward D. Bagley (the "2022 Bridge Loan"), an affiliate of the Company. The 2022 Bridge Loan was evidenced by a promissory note dated October 28, 2022 (the "2022 Note") issued by the Company to Mr. Bagley. The 2022 Note bore interest at a rate of 12.0% per annum and had a maturity date of October 28, 2023. Mr. Bagley is an affiliate of the Company and the Company's single largest stockholder. This Bridge Loan of \$2,000 is included under short-term debt as of December 31, 2022. In January 2023, the 2022 Bridge loan of \$2,000 along with applicable interest was repaid in full.

#### **UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited - Dollars in thousands, except per share amounts)

#### **10. Share-based Compensation**

As of **June** **September** 30, 2023, the Company had **245,685** **218,810** options with contractual lives of ten years and **400,000** **393,229** options with contractual lives of six years offered under the Company's 2007 Equity Incentive Plan (the "2007 Plan"), which was restated and approved by the shareholders on December 12, 2015. As of **June** **September** 30, 2023, the 2007 Plan had **813,585** **852,815** authorized unissued options.

The Company uses judgment in determining the fair value of the share-based payments on the date of grant using an option-pricing model with assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the risk-free interest rate of the awards, the expected life of the awards, the expected volatility over the term of the awards, and the expected dividends of the awards. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based payments granted under the guidelines of ASC Topic 718.

In applying the Black-Scholes methodology to 160,000 options granted in June 2023, the Company used the following assumptions:

Risk free interest rate, average	3.91%
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Expected option life, average	5 years
Expected price volatility, average	91.47%
Expected dividend yield	0%

A summary of the stock option activity under the Company's plans for the **six** **nine** months ended **June 30, 2023** **September 30, 2023**, is as follows:

	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
<b>Options outstanding at beginning of year</b>	488,477	\$ 6.48	488,477	\$ 6.48
Granted	160,000	—	160,000	1.01
Less:				
Exercised	—	—	—	—
Forfeited prior to vesting	(1,355)	2.50	(5,210)	2.50
Canceled or expired	(1,437)	8.88	(31,228)	7.63
<b>Options outstanding at June 30, 2023</b>	645,685	5.14		
<b>Options exercisable at end of June 30, 2023</b>	405,400	\$ 7.30		
<b>Options outstanding at September 30, 2023</b>			612,039	5.03
<b>Options exercisable at end of September 30, 2023</b>			391,537	\$ 7.06

As of **June** **September** 30, 2023, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately **\$221**, **\$186**, which will be recognized over a weighted average period of **3.67** **2.42** years.

Share-based compensation expense has been recorded as follows:

					Three months ended		Six months ended		Three months ended		Nine months ended	
	June 30,		June 30,		September	September	30,	30,	30,	30,	30,	30,
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Cost of goods sold	\$ 1	\$ 2	\$ 3	\$ 4	\$ 2	\$ 2	\$ 2	\$ 6	\$ 5	\$ 6	\$ 24	\$ 30
Sales and marketing	2	3	4	7	2	2	2	9	6	9	24	37
Research and product development	11	11	20	24	17	10	37	34	32	40	47	65
General and administrative	10	14	20	30	12	10	32	40	24	33	80	89

## UNAUDITED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

### 11. Income Taxes

The current year loss did not result in income tax benefit due to recording a full valuation allowance against expected benefits. The valuation allowance was recorded as we concluded that it was more likely than not that our deferred tax assets were not realizable primarily due to the Company's recent pre-tax losses. Provision for income taxes for the **six** **nine** months ended **June 30, 2023** **September 30, 2023** mostly represents income tax expense recorded for jurisdictions outside the United States.

The Company had approximately \$962 of uncertain tax positions as of **June 30, 2023** **September 30, 2023**. Due to the inherent uncertainty of the underlying tax positions, it is not possible to forecast the payment of this liability for any particular year.

### 12. Fair Value Measurements

The fair value of the Company's financial instruments reflects the amounts that the Company estimates it will receive in connection with the sale of an asset or pay in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value hierarchy prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes U.S. Government and agency securities; municipal securities; mutual funds and securities sold and not yet settled.

Level 3 - Unobservable inputs.

The Company's financial instruments are valued using observable inputs. The following table sets forth the fair value of the financial instruments re-measured by the Company as of **June 30, 2023** **September 30, 2023**:

	Level 1	Level 2	Level 3	Total	Level	Level	Level
					1	2	3
<b>June 30, 2023</b>							
<b>September 30, 2023</b>							

Mutual funds	\$ —	\$ 1,166	\$ —	\$ 1,166	\$ 1,171	\$ —	\$ —	\$ 1,171
US Treasury securities	—	3,757	—	3,757	—	3,278	—	3,278
Certificates of deposit	—	1,099	—	1,099	—	859	—	859
Corporate bonds and notes	—	972	—	972	—	973	—	973
Total	<u>\$ —</u>	<u>\$ 6,994</u>	<u>\$ —</u>	<u>\$ 6,994</u>	<u>\$ 1,171</u>	<u>\$ 5,110</u>	<u>\$ —</u>	<u>\$ 6,281</u>

There were no financial instruments that were re-measured by the Company as of December 31, 2022.

### 13. Subsequent events

On August 1, 2023, the Company received a letter (the "Notice") from the Listing Qualifications Department (the "Staff") of the Nasdaq Stock Market ("Nasdaq") informing management that because the closing bid price for the Company's common stock listed on Nasdaq was below \$1.00 for 30 consecutive trading days, the Company is not in compliance with the minimum bid price requirement for continued listing on the Nasdaq Capital Market, as set forth in Nasdaq Marketplace Rule 5550(a)(2) (the "Minimum Bid Price Requirement"). In accordance with Nasdaq Marketplace Rule 5810(c)(3)(A), the Company was granted a period of 180 calendar days from August 1, 2023, or until January 29, 2024, to regain compliance with the Minimum Bid Price Requirement. The Company's common stock has continued to trade below \$1.00 per share, and the closing price of the Company's common stock on August 4, 2023 was \$0.8083. None.

### Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this report, other than statements of historical fact, are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are based upon reasonable assumptions at the time made, there can be no assurance that any such expectations or any forward-looking statement will prove to be correct. Our actual results will vary, and may vary materially, from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, many of which we cannot predict with accuracy and some of which we might not anticipate, including, without limitation, product recalls and product liability claims; infringement of our technology or assertion that our technology infringes the

rights of other parties; termination of supplier relationships, or failure of suppliers to perform; our expectations regarding the ongoing transition of manufacturing of our products from China to Singapore by our electronics manufacturing services provider; inability to successfully manage growth; delays in obtaining regulatory approvals or the failure to maintain such approvals; concentration of our revenue among a few customers, products or procedures; development of new products and technology that could render our products obsolete; market acceptance of new products; introduction of products in a timely fashion; price and product competition, availability of labor and materials, cost increases, and fluctuations in and obsolescence of inventory; volatility of the market price of our common stock; foreign currency fluctuations; changes in key personnel; work stoppage or transportation risks; integration of business acquisitions; and other factors referred to in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2022. All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are discussed in Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q and in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022.

## **BUSINESS OVERVIEW**

ClearOne is a global Company that designs, develops and sells conferencing, collaboration, and AV networking solutions for voice and visual communications. The performance and simplicity of our advanced, comprehensive solutions offer a high level of functionality, reliability and scalability. We derive a major portion of our revenue from audio conferencing products and microphones by promoting our products in the professional audio-visual channel. We have extended our total addressable market from the installed audio conferencing market to adjacent complementary markets – microphones, video collaboration and AV networking. We have achieved this through strategic technological acquisitions as well as by internal product development.

On January 30, 2023, we introduced the new CHAT® 150 BT group speakerphone with USB and Bluetooth connectivity that enhances the conferencing experience for the ultimate in business class performance. With simple, instant connection to personal computers, mobile devices or Bluetooth-enabled desk phones, the CHAT® 150 BT group speakerphone provides users with an affordable way to upgrade home offices, executive offices, and mid-size meeting rooms with BYOD convenience and superior audio clarity for audio conferences and video meetings. The CHAT® 150 BT speakerphone also has an audio bridging feature that allows far end conference participants connected via a software conferencing application through USB, local users of the speakerphone, and far end callers on a mobile call connected through Bluetooth to all join the same call and hear each other clearly. Featuring a steerable microphone array with first-mic priority, the CHAT® 150 BT speakerphone intelligently activates the microphone closest to the person speaking, reducing interference from ambient noise. Like all ClearOne microphone products, the CHAT® 150 BT speakerphone is compatible with popular collaboration platforms including Microsoft® Teams, Zoom™, WebEx™, Google® Meet™, and many more. The new BT model retains all the class-leading features of the original CHAT® 150 speakerphone, including Advanced Noise Cancellation, Full Duplex Distributed Echo Cancellation™ and Automatic Level Control algorithms, to ensure highly intelligible, natural audio capture and playback. It also supports NFC tap-to-pair and includes a wired USB connection for compatibility with the full variety of modern devices.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On January 16, 2023, we introduced UNITE 260 Pro camera, a professional grade 4K Ultra HD camera featuring both a 20X optical zoom and 16X digital zoom that allows users to capture every participant in all meeting, training, and learning environments it is deployed in. Compatible with all popular meeting applications like Microsoft® Teams, Zoom™, WebEx™, and Google® Meet™, the new camera features an AI-based smart face tracking mode that keeps a selected presenter in the frame as they move about the room. Alternatively, the camera's AI-based auto framing mode always keeps an entire group in perfect view. With dual video outputs HDMI and IP, the UNITE 260 Pro Camera is an excellent choice for a hybrid environment: streaming content while simultaneously showing it live where the presentation is occurring.

In May 2023, we launched eight new COLLABORATE® Versa® packaged hardware systems to provide optimized audio and video performance for conference rooms and personal office spaces. The updated lineup of bundled solutions empowers businesses of all sizes and means to leverage powerful conferencing capabilities that include automatic voice tracking, face tracking and echo cancellation. The new lineup of COLLABORATE Versa solutions offers an ideal package for every small-to-medium sized conferencing space or personal office, giving business owners and IT staff mission-specific options that ensure maximum value, utility and performance in any room. The solutions launched were COLLABORATE Versa Room CT 160, COLLABORATE Versa Room CT, COLLABORATE Versa 20, COLLABORATE Versa 20 Plus, COLLABORATE Versa 160, COLLABORATE Versa 60, COLLABORATE Versa Pro 160, and COLLABORATE Versa Pro 60.

In June 2023, we returned to Infocomm for the first time since 2019 with a complete suite of products, programs, and on-site demonstrations designed to help partners grow their business across every vertical market where increased collaboration is a priority. We exhibited our solutions in Booth #3061 in the Orange County Convention Center from June 14-16, 2023 in Orlando, Florida.

At Infocomm 2023, we unveiled the BMA 360D, the newest member of the world's most advanced beamforming microphone array ceiling tile family. The BMA 360D offers unrivaled audio performance and native compatibility with any Dante-enabled DSP mixer. The new Dante-compatible beamforming microphone array allows integrators and users to leverage ClearOne's industry-leading microphone innovations in more projects and spaces than ever before. The BMA 360D takes our groundbreaking product to the next level by leveraging standard IP networking infrastructure in an enterprise, empowering AV and IT practitioners to upgrade existing room solutions to use more powerful microphones and expanding flexibility that enables third-party DSP integrations in new system designs. The added power and advanced beamforming also enhance the performance of critical modern functions such as voice lift and camera tracking. Dante integration in the BMA 360D enhances the array's functionality by delivering unprocessed beam audio on individual Dante transmit channels. Additionally, a smart-switched output is delivered on a separate Dante channel to provide the optimal mix of active inputs while enabling ClearOne's full suite of audio enhancements, which include echo cancellation, noise cancellation, and level control. The BMA 360D incorporates the industry's only ultra-wideband, frequency-invariant beamforming mic array technology with uniform gain response across all frequency bands. With proprietary FiBeam™ and DsBeam™ technology, participants experience natural and full-fidelity audio across all beams and within a single beam. DsBeam delivers superb clarity and intelligibility through

unparalleled sidelobe depth below -40 dB, resulting in superior rejection of reverb and noise even in challenging environments. Integrator setup is simplified by convenient preset beam patterns for common room layouts, while custom beam patterns can be created for unique floor plans. Combined with adaptive steering that focuses audio pickup on active speakers, the adjustable beam patterns provide impeccable coverage of every meeting or conference participant. The exceptional accuracy of ClearOne's beamforming and adaptive steering technologies also enhance the performance of voice lift and camera tracking functions for any attached DSP mixer.

We also introduced at Infocomm, our powerful new DIALOG® UVHF wireless microphone system that combines class-leading flexibility, Power over Ethernet (PoE) simplicity, Dante technology, and up to 350 usable frequencies to offer professional-quality audio conferencing, video collaboration, and sound reinforcement for any size room. The new DIALOG UVHF system offers businesses and institutions a flexible wireless microphone system that can address varying types of audio pickup needs for rooms of virtually any size. With up to 350 available frequencies across 160 MHz of RF range, the system also delivers incredibly robust reception. Now corporate boardrooms, training rooms, college lecture halls, courtrooms and other multi-use venues can ensure excellent audio pickup quality and meet varying pickup needs with the simplicity of PoE that enables installation virtually anywhere through a single CAT6 ethernet cable. ClearOne's free support for system design and remote commissioning makes it easier than ever to outfit any presentation space with a professional-quality multi-function audio pickup solution. The DIALOG UVHF system allows integrators, room designers and meeting hosts to address a wide range of audio pickup needs through five lavalier, lanyard and headset-type body microphones, two handheld microphones, a boundary microphone and three gooseneck microphones for podium use. Powering the microphones is simple and efficient, as all models use the same 12-hour off-the-shelf Li-ion battery that can be charged via USB-C or an optional eight-bay network-connected charging dock. Firmware updates can be done over the network, while the transmitters charge. The Dante-enabled system includes an eight-channel Dante Access Point to ensure optimal signal transmission and system reliability, while an optional DIALOG UVHF Dante interface provides eight Euroblock balanced analog outputs, including mixed output, USB audio output and eight GPIOs. The lightweight plenum-rated access point provides versatile mounting options for wall, ceiling, tabletop or pole mounting, including VESA mount holes. The DIALOG UVHF is the only system with a wireless access point that delivers antenna redundancy and diversity, with dual antennas providing spatial and polarization diversity that helps maintain high audio quality in harsh environments. A wired ethernet connection adds the ability to connect management software to the access point via a web browser. Secure RF connections are created using full-time standards-based FIPS 197 AES-256 encryption. ClearOne's solutions are designed to support all leading collaboration platforms, including Microsoft Teams, Google Meet, GoToMeeting, Zoom and WebEx.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In August 2023, we showcased our full range of conferencing, collaboration, and communications solutions at CEDIA 2023 held in Denver, Colorado. During the event, we highlighted the CHAT® 150 BT Speakerphone (USB and Bluetooth speakerphone), Versa® Mediabar™ (video soundbar), UNITE® 60 (4K ePTZ wide-angle tracking camera), COLLABORATE® Versa® Pro CT (product bundle consisting of Huddle DSP and BMA CTH beamforming mic array ceiling tile), COLLABORATE® Versa® Lite CT

(USB Plug-N-Play beamforming mic array ceiling tile), and COLLABORATE® Versa® 60 (product bundle consisting of CHAT® 150 USB speakerphone, a UNITE® 60 wide angle 4K ePTZ camera, and a VERSA USB Hub).

In September 2023, our new DIALOG® UVHF Wireless Microphone System was named a winner in the Higher Education category of the 2023 Tech & Learning Magazine Awards of Excellence. The annual Tech & Learning Awards of Excellence program, conducted by leading educational technology publication Tech & Learning, recognizes innovation in the edtech industry and celebrates the most impressive products and solutions that support learning environments.

We continued our programs to cut costs and to speed up product development that we believe will enable us to get back to a growth path.

Overall revenue decreased by 26% 22% in the second third quarter of 2023 when compared to the second third quarter of 2022, primarily due to a significant decrease in revenues from all product categories, especially microphones, audio conferencing category. The revenue decline was primarily partially due to our continued inability to source adequate inventory to meet the demand for professional audio products and BMA due to the ongoing transition of manufacturing of our products from China to Singapore by our electronics manufacturing services provider and due to the. The revenue decline in was also caused by significantly reduced demand for video products.our products in many regions including USA, Europe, the Middle East and China when compared to 2022-Q3 revenues. We expect the challenges with the manufacturing transition from China to Singapore to ease resolve in the second half fourth quarter of 2023 as we have seen improvement in product deliveries in the second quarter and third quarters of 2023 when compared to the first quarter of 2023. Our revenue performance in 2023-Q2 2023-Q3 also was also partially to a small extent impacted negatively due to increased costs associated with the electronic raw material supply shortages materials that have affected the global manufacturing of high tech products. We expect these supply shortages and associated increased costs in various degrees to continue through at least the end of 2023, 2023 and 2024.

Our gross profit margin decreased to 33.7% 33.1% during the second third quarter of 2023 from 38.1% 41.0% during the second third quarter of 2022. Our gross profit margin decreased to 32.7% 32.8% during the first six nine months of 2023 compared to 37.7% 38.7% during the first six nine months of 2022. Gross Profit margin decreased year over year mainly due to increase in administration and overhead costs as a percentage of revenue and increase change in inventory obsolescence costs. the revenue mix of the products.

Net loss increased from \$0.3 \$1.2 million in the second third quarter of 2022 to \$1.0 million \$1.4 million in the second third quarter of 2023. The increase in net loss was mainly due to (a) the recognition in 2022-Q2 of \$1.5 million in gain from the forgiveness of CARES Act Paycheck Protection Program Loan in 2022-Q2, and (b) a decrease in revenues and associated gross margin, partially offset by (c) (b) a decrease in operating expenses and (c) an increase in interest income. Net loss decreased from \$2.2 million \$3.5 million for the first half nine months of 2022 to \$1.9 million \$3.2 million for the first half nine months of 2023. The decrease was mainly due to (a) a recognition of \$1.35 million from a one-time legal settlement of a contract dispute, (b) significant reduction in operating expenses, and (c) increase in interest income, partially reduced by (d) reduced revenue and associated gross margin, and (e) recognition of \$1.5 million gain from the forgiveness of CARES Act Paycheck Protection Program Loan in 2022-Q2. margin.

We believe, although there can be no assurance, that we can return to generating operating profits through our strategic initiatives namely product innovation and cost reduction.

#### *Industry conditions*

We operate in a very dynamic and highly competitive industry which is dominated on the one hand by a few players with respect to certain products like traditional video conferencing appliances while on the other hand influenced heavily by a fragmented reseller market consisting of numerous regional and local players. The industry is also characterized by venture capitalist-funded start-ups and private companies willing to fund cumulative cash losses in order to gain market share and achieve certain non-financial goals. It has become increasingly important to have higher interoperability with other products in the audio visual market as well as with certifications from leading video conferencing service providers like Microsoft and Zoom.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### *Economic conditions, challenges and risks*

The audio-visual products market is characterized by intense competition and rapidly evolving technology. Our competitors vary within each product category. Our installed professional audio conferencing products, which is our flagship product category, continue to be ahead of the competition despite the reduction in revenues. Our strength in this space is largely due to our fully integrated suite of products consisting of DSP mixers, wide range of professional microphone products and video collaboration products. Despite our strong leadership position in the installed professional audio conferencing market, we face challenges to revenue growth due to the limited size of the market, pricing pressures from new competitors attracted to the commercial market due to higher margins, our limited ability to be interoperable with other audio visual products in the market, and the lack of certifications from Microsoft.

Our video products and beamforming microphone arrays, especially highly advanced BMA 360 and BMA-CT are critical to our long-term growth. We face intense competition in this market from well-established market leaders as well as emerging players rich with marketing funds. We expect our strategy of making our products more interoperable with other audio-visual products, continuing to improve the quality of our high-end audio conferencing products and microphones, and offering a wide range of innovative professional cameras will generate high growth in the near future.

We derive a significant portion of our revenue (approximately 52% 56% in the first nine months of 2023) 2022 from international operations and expect this trend to continue in the future. Most of our revenue from outside the U.S. is billed in U.S. dollars and is not exposed to any significant currency risk. However, we are exposed to foreign exchange risk if the U.S. dollar is strong against other currencies as it will make U.S. Dollar denominated prices of our products less competitive.

In December 2019, a novel strain of coronavirus ("COVID-19") started spreading from China and was declared a pandemic. The COVID-19 pandemic caused severe global disruptions and had varying impact on our business. The installed audio conferencing market was negatively impacted due to lockdowns, postponement of projects and restrictions on installers to visit commercial sites. On the other hand, COVID-19 generated higher than normal demand in 2020 for our video products and personal conferencing products due to the significant expansion of work-from-home market. The extent of COVID-19's effect on our operational and financial performance **keeps evolving and depends on multiple factors including the severity and infectiousness of current and future virus strains, effectiveness of vaccines especially on novel strains of COVID-19, government regulations, etc., all of which are uncertain and difficult to predict considering the rapidly evolving landscape.** Supply chain disruptions resulting from COVID-19 have caused significant fluctuations in our costs of goods resulting in a reduction of our gross margins in 2021 and 2022. We expect these fluctuations to continue in 2023. If the pandemic **continues resurfaces** to be a severe worldwide health crisis, the disease could have a material adverse effect on our business, results of operations, financial condition and cash flows and adversely impact the trading price of our common stock.

#### *Deferred Product Revenue*

Deferred product revenue decreased to \$52 thousand on **June 30, 2023** **September 30, 2023** compared to \$63 thousand on December 31, 2022.

A detailed discussion of our results of operations follows below.

#### ***Results of Operations for the three and six months ended June 30, 2023***

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### ***Results of Operations for the three and nine months ended September 30, 2023***

The following table sets forth certain items from our unaudited condensed consolidated statements of operations for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** ("2023-Q2Q3") ("2023-H1" 2023-YTD") and 2022 ("2022-Q2Q3") ("2022-H1" 2022-YTD"), respectively, together with the percentage of total revenue which each such item represents:

(dollars in thousands)	Three months ended June 30,			Six months ended June 30,			Three months ended September 30,			Nine months ended September 30,		
	2023		Change Favorable (Adverse) in %	2023		Change Favorable (Adverse) in %	2023		Change Favorable (Adverse) in %	2023		Change Favorable (Adverse) in %
	2023	2022		2023	2022		2023	2022		2023	2022	
Revenue	\$ 5,483	\$ 7,375	(26)	\$ 9,661	\$ 14,920	(35)	\$ 4,889	\$ 6,264	(22)	\$ 14,550	\$ 21,184	(31)

Cost of goods sold	3,635	4,568	20	6,498	9,297	30	3,273	3,694	11	9,771	12,991	25
Gross profit	1,848	2,807	(34)	3,163	5,623	(44)	1,616	2,570	(37)	4,779	8,193	(42)
Sales and marketing	1,323	1,562	15	2,515	3,122	19	1,119	1,151	3	3,634	4,273	15
Research and product development	873	1,177	26	1,916	2,530	24	889	876	(1)	2,805	3,406	18
General and administrative	1,007	1,717	41	2,276	3,473	34	1,097	1,673	34	3,373	5,146	34
Total operating expenses	3,203	4,456	28	6,707	9,125	26	3,105	3,700	16	9,812	12,825	23
Operating loss	(1,355)	(1,649)	18	(3,544)	(3,502)	(1)	(1,489)	(1,130)	(32)	(5,033)	(4,632)	(9)
Other income (expense), net	346	1,411	(75)	1,720	1,313	31	157	(93)	269	1,877	1,220	54
Loss before income taxes	(1,009 )	(238)	(324)	(1,824)	(2,189)	17	(1,332 )	(1,223)	(9)	(3,156)	(3,412)	8
Provision for income taxes	10	19	47	27	35	23	19	25	24	46	60	23
Net loss	\$ (1,019)	\$ (257)	(296)	\$ (1,851)	\$ (2,224)	\$ 17	\$ (1,351)	\$ (1,248)	(8)	\$ (3,202)	\$ (3,472)	\$ 8

## Revenue

Our revenue decreased to \$5.5 million \$4.9 million in 2023-Q2 2023-Q3 compared to \$7.4 million \$6.3 million in 2022-Q2 2022-Q3 due to a 14% 42% decline in audio conferencing, a 5% decline in microphones, and a 48% decline 14% increase in video products, and a 30% decline in audio conferencing products. Except for premium audio conferencing, which constitutes a small percentage of our revenue BMA and some video products, all other product categories suffered revenue declines year over year. Revenues from BMA and professional audio conferencing products were partially negatively impacted by our inability to source adequate inventory to meet the demand for these products, despite a robust backlog of orders, due to the ongoing transition of manufacturing of our products from China to Singapore by our electronics manufacturing services provider. Our traditional ceiling mics, personal audio conferencing products, video cameras and video conferencing equipment cameras suffered revenue declines due to lack of demand. During the second third quarter of 2023, revenues from Americas Asia including India and the Middle East as a whole increased by 6% 2% while all other regions suffered revenue loss. During 2023-Q2 2023-Q3 revenues from the Americas Asia Pacific, including the Middle East, India and Australia declined by 32%. Finally, revenues from Europe and Africa declined significantly by 75% in 2023-Q2, 57%.

During the six nine months ended June 30, 2023 September 30, 2023 our revenues decreased from \$14.9 million \$21.2 million to \$9.7 million \$14.6 million compared to the same period in 2022 due to revenues from microphones decreasing by 36% 27%, video products decreasing by 52% 39% and audio conferencing decreasing by 28% 33%.

We believe, although there can be no assurance, that we can return to generating operating profits through our strategic initiatives namely product innovation and cost reduction.

#### **Costs of Goods Sold and Gross Profit**

Cost of goods sold includes expenses associated with finished goods purchased from outsourced manufacturers, the repackaging of our products, our manufacturing and operations organization, property and equipment depreciation, warranty expense, freight expense, royalty payments, and the allocation of overhead expenses.

Our gross profit margin decreased from 38.1% 41.0% during 2022-Q2 2022-Q3 to 33.7% 33.1% during 2023-Q2-Q3. The gross profit margin was negatively impacted due to increases in material costs mainly due to an increase in administration and overhead costs as a percentage of revenue and increase a negative change in the revenue mix of the products partially offset by reduced inventory obsolescence costs.

Our gross profit margin decreased from 37.7% 38.7% during 2022-H1-YTD to 32.7% 32.8% during 2023-H1. The-YTD. The gross profit margin decreased primarily was negatively impacted due to increase increases in material costs mainly due to an increase in administration and overhead costs as a percentage of revenue and increase a negative change in the revenue mix of the products partially offset by reduced inventory obsolescence costs.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our profitability in the near-term continues to depend significantly on our revenues from professional installed audio-conferencing products. We hold long-term inventory and if we are unable to sell our long-term inventory, our profitability might be affected by inventory write-offs and price mark-downs. Our long-term inventory includes approximately \$0.5 million \$0.4 million of wireless microphone-related finished goods and assemblies, \$0.3 million \$0.2 million of Converge Pro and Beamforming microphone array products, \$0.9 million of video products, and \$1.5 million \$1.3 million of raw materials that will be used primarily for manufacturing professional audio conferencing products and BMA microphones. Any business changes that are adverse to these product lines could potentially impact our ability to sell our long-term inventory in addition to our current inventory.

#### **Operating Expenses**

Operating expenses include sales and marketing ("S&M") expenses, research and product development ("R&D") expenses and general and administrative ("G&A") expenses. Total operating expenses in 2023-Q2 2023-Q3 was \$3.2 million \$3.1 million compared to \$4.5 million \$3.7 million in 2022-Q2 2022-Q3. Total operating expenses were \$6.7 million \$9.8 million for 2023-H1 the nine months ended September 30, 2023 compared to \$9.1 million \$12.8 million for 2022-H1 the nine months ended September 30, 2022. The following contains a more detailed discussion of expenses related to sales and marketing, research and product development, general and administrative, and other items. The following contains a more detailed discussion of expenses related to sales and marketing, research and product development, general and administrative, and other items.

**Sales and Marketing** - S&M expenses include selling, customer service, and marketing expenses such as employee-related costs, allocations of overhead expenses, trade shows, and other advertising and selling expenses.

S&M expenses in 2023-Q2 2023-Q3 decreased marginally to \$1.3 1.1 million from \$1.6 million \$1.2 million for 2022-Q2 2022-Q3. The decrease was primarily due to decreases in employment expenses and consultant expenses due to a reduction in headcount and due to a decrease in commissions paid to independent reps partially offset by increases in trade-show related expenses and employees and consultants benefit costs.

S&M expenses in the first 2023-H1 nine months ended September 30, 2023 decreased to \$2.5 3.6 million from \$3.1 4.3 million for 2022-H1 nine months ended September 30, 2022. The decrease was primarily due to (a) decreases in employment expenses and consultant expenses due to a reduction in headcount, and due to (b) a decrease in commissions paid to employees and consultants, and (c) a decrease in marketing expenses related to advertising, partially offset by (d) an increase in trade-show related costs.

**Research and Product Development** - R&D expenses include research and development, product line management, engineering services, and test and application expenses, including employee-related costs, outside services, expensed materials, depreciation, and an allocation of overhead expenses.

R&D expenses decreased to remained at \$0.9 million in 2023-Q2 compared to \$1.2 million for 2022-Q2. The decrease was primarily due to a reduction in employment expenses due to a reduction in headcount 2023-Q3 and a decrease in project-related expenses 2022-Q3.

R&D expenses decreased to \$1.9 2.8 million in the 2023-H1 nine months ended September 30, 2023 compared to \$2.5 3.4 million for the 2022-H1 nine months ended September 30, 2022. The decrease was primarily due to (a) a reduction decline in project-related expenses, (b) decreased employment expenses due to a reduction in the headcount, and (c) a decrease decline in project-related expenses, allocated expenses, partially offset by (d) an increase in employee benefits and (e) an increase in legal expenses related to securing patents.

**General and Administrative** - G&A expenses include employee-related costs, professional service fees, allocations of overhead expenses, litigation costs, and corporate administrative costs, including costs related to finance and human resources teams.

G&A expenses decreased to \$1.0 million in 2023-Q2 compared to \$1.7 million in 2022-Q2. The reduction was primarily due to (i) a decrease in amortization costs relating to our capitalized patent defense costs, which was fully amortized in 2022-Q4, (ii) a decrease in legal expenses, (iii) and a decrease in employment-related expenses.

G&A expenses decreased to \$2.33 million in 2023-H1-YTD compared to \$3.5 million in 2022-H1-YTD. The reduction was primarily due to (i) a decrease in amortization costs relating to our capitalized patent defense costs, which was fully amortized in 2022-Q4, (ii) a decline in audit fees, (iii) and a decline in employment-related expenses, partially offset by (iv) an increase in insurance expenses and (v) an increase in investor relations expenses.

#### **Interest Expense**

Interest expense remained almost the same at \$0.1 million in 2023-Q3 and 2022-Q3. Interest expense increased to \$0.5 million in 2023-YTD compared to \$0.3 million in 2022-YTD primarily due to interest associated with the prepayment of the \$2 million bridge loan in January 2023.

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#### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

##### **Other income (expense), net**

Other income (expense), net includes interest income, foreign currency changes and gain or loss on disposal of assets. Other income for 2023-Q2 2023-Q3 included \$0.45 million \$0.24 million of interest income received on marketable securities. During 2022-Q3 there was no interest income. Other income in 2022-Q2 and 2022-H1 2022-YTD included \$1.5 million in gain from the forgiveness of CARES Act Paycheck Protection Program Loan. 2023-H1 2023-YTD included a receipt of \$1.35 million \$1.34 million from a one-time legal settlement of a contract dispute and \$0.8 million \$1.0 million of interest income received on marketable securities. All other items not discussed herein included in other income remained immaterial during 2023-H1, 2022-H1, 2023-Q2 2023-YTD, 2022-YTD, 2023-Q3 and 2022-Q2 2022-Q3.

Interest expense remained almost the same at \$0.1 million in 2023-Q2 and 2022-Q2. Interest expense increased to \$0.4 million in 2023-Q1 compared to \$0.2 million in 2022-Q1 primarily due to interest associated with the prepayment of the \$2 million bridge loan in January 2023.

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#### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

##### **Provision for income taxes**

During each of the six nine months ended June 30, 2023 September 30, 2023 and 2022, we did not recognize any benefit from the losses incurred due to setting up a full valuation allowance.

## LIQUIDITY AND CAPITAL RESOURCES

As of **June 30, 2023** **September 30, 2023**, our cash and cash equivalents were approximately **\$15.1** **\$13.7** million compared to \$1.0 million as of December 31, 2022. Our working capital was **\$37.5** **\$36.7** million and \$69.3 million as of **June 30, 2023** **September 30, 2023** and December 31, 2022, respectively.

Net cash provided by operating activities was approximately **\$52.9 million** **\$51.1 million** in the **2023-Q2** nine months ended **September 30, 2023**, an increase of net cash provided by operating activities of approximately **\$55.6 million** **\$53.2 million** from **\$2.7 million** **\$2.1 million** of net cash used by operating activities in **2022-Q2**, the nine months ended **September 30, 2022**. The increase in cash inflow was primarily due to \$55 million in receipts from legal settlements, the receipt of \$4.5 million from the return of a bond deposited with a court, and a \$1.3 million refund of income taxes with interest. These receipts were partially offset by operating losses and **\$6.5 million** **\$6.7 million** in income tax payments.

Net cash used in investing activities in **2023-Q2** the nine months ended **September 30, 2023** was **\$7.4 million** **\$6.8 million** compared to **\$2.4 million** **\$2.3 million** of net cash provided by investing activities in **2022-Q2**, the nine months ended **September 30, 2022**. The increase in cash used in investing activities was primarily due to an increase in purchase purchases of marketable securities (net of sales) by **\$4.0 million** **\$9.3 million** and an increase in purchase of property and equipment by \$0.3 million. These increases were partially offset by the elimination of capitalized legal expenses of **\$0.5 million** **\$0.6 million**.

Net cash used in financing activities in **2023-Q2** the nine months ended **September 30, 2023** was **\$31.4 million** **\$31.7 million**, comprised primarily of dividend distributions of **\$29.0 million**, **\$29.0 million**, repayment of the bridge loan of **\$2 million** **\$2.0 million** and **\$0.5 million** **\$0.7 million** payments of principal amounts due on senior convertible debt. This compares to **\$0.4 million** **\$0.5 million** used in payments of principal amounts due on senior convertible debt and a receipt of \$0.8 million in loan repayments refunded upon forgiveness of CARES Act Paycheck Protection Program loan in the **2022-Q2**, nine months ended **September 30, 2022**.

As of **June** **September 30, 2023**, our cash and cash equivalents were approximately **\$15.1** **\$13.7** million compared to \$1.0 million as of December 31, 2022. Our working capital was **\$37.5** **\$36.7** million as of **June** **September 30, 2023**. Net cash provided by operating activities was \$52.9 million for the six months ended June 30, 2023, an increase of \$55.6 million compared to \$2.7 million of cash used in operating activities for the six months ended June 30, 2022. The company announced and paid in May 2023 a special one-time cash dividend of \$1.00 per share or eligible warrant totaling \$29.0 million. The Company also paid approximately \$6.5 million towards income taxes in April 2023. The Company believes that the Company's core strategies of product innovation and prudent cost management will bring the company back to profitability in the future. The Company believes, although there can be no assurance, that the current cash position and effective management of working capital, will provide the liquidity needed to meet our operating needs through at least **August 10, 2024** **November 8, 2024**. The Company also believes that its strong portfolio of intellectual property and its solid brand equity in the market will enable it to raise additional capital if and when needed to meet its short and long-term financing needs; however, there can be no assurance

that, if needed, the Company will be successful in obtaining the necessary funds through equity or debt financing. financing on favorable terms or at all. If the Company needs additional capital and is unable to secure financing, it may be required to further reduce expenses, or delay product development and enhancement.

As of **June 30, 2023** **September 30, 2023**, we had open purchase orders of approximately **\$2.1** **\$3.6** million mostly for the purchase of inventory.

As of **June** **September 30, 2023**, we had inventory totaling **\$10.9** **\$11.5** million, of which non-current inventory accounted for **\$3.4** **\$2.9** million. This compares to total inventories of \$11.7 million, which includes non-current inventory of \$2.7 million as of December 31, 2022.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of **June 30, 2023** **September 30, 2023** (in millions):

	Payment Due by Period					Payment Due by Period				
	Less					More				
	Than					than 5				
	Total	1 Year	1-3 Years	3-5 Years	years	Total	1	1-3	3-5	5
Senior convertible notes	\$ 1.4	\$ 1.4	\$ —	\$ —	\$ —	\$ 1.2	\$ 1.2	\$ —	\$ —	\$ —
Operating lease obligations	1.4	0.4	0.6	0.4	—	1.3	0.4	0.6	0.3	—
Purchase obligations	2.1	2.1	—	—	—	3.6	3.6	—	—	—
Total	\$ 4.9	\$ 3.9	\$ 0.6	\$ 0.4	\$ —	\$ 6.1	\$ 5.2	\$ 0.6	\$ 0.3	\$ —

### OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance-sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, results of operations or liquidity.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our results of operations and financial position are based upon our unaudited condensed consolidated financial statements included under Item 1 of this Form 10-Q, which have been prepared in conformity with accounting principles generally accepted in the United States. We review the accounting policies used in reporting our financial results on a regular basis. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. There have been no changes to the critical accounting policies as explained in our Annual Report on Form 10-K for the year ended December 31, 2022.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

For a discussion of recent accounting pronouncements, see Note 1: "Business Description, Basis of Presentation and Significant Accounting Policies" in the notes to our unaudited condensed consolidated financial statements included under Item 1 of this Form 10-Q.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

## **ITEM 4. CONTROLS AND PROCEDURES**

An evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of **June 30, 2023** **September 30, 2023** was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Principal Financial and Accounting Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures are effective at a reasonable assurance level as of **June 30, 2023** **September 30, 2023**.

There has been no change in the Company's internal control over financial reporting as of **June 30, 2023** **September 30, 2023**, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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## **PART II - OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

None.

### **Item 1A. RISK FACTORS**

The risk factor set forth below supplements and should be read in conjunction with the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as previously supplemented by our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023:

*Our common stock trades at prices less than \$1.00 which is the minimum bid price requirement under Nasdaq's continued listing standards, as such our common stock may be subject to delisting from the Nasdaq Capital Market.*

On August 1, 2023, we received a letter (the "Notice") from the Listing Qualifications Department (the "Staff") of the Nasdaq Stock Market ("Nasdaq") informing us that because the closing bid price for the Company's common stock listed on Nasdaq was below \$1.00 for 30 consecutive trading days, we are not in compliance with the minimum bid price requirement for continued listing on the Nasdaq Capital Market, as set forth in Nasdaq Marketplace Rule 5550(a)(2) (the "Minimum Bid Price Requirement"). In accordance with Nasdaq Marketplace Rule 5810(c)(3)(A), we were granted a period of 180 calendar days from August 1, 2023, or until January 29, 2024, to regain compliance with the Minimum Bid Price Requirement. Our common stock has continued to trade below \$1.00 per share, and the closing price of our common stock on August 4, 2023 was \$0.8083.

If our common stock is delisted from Nasdaq Capital Market in the future, such securities may be traded on the over-the-counter markets. Such alternative markets, however, are generally considered to be less efficient than, and not as broad as, Nasdaq. Accordingly, delisting of our common stock from Nasdaq could have a significant negative effect on the trading volume, liquidity and market price of our common stock. In addition, the delisting of our common stock could adversely affect our ability to raise capital on terms acceptable to us or at all and could reduce the number of investors willing to hold or acquire our common stock. None.

## **Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) None.

(b) Not applicable.

(c) None.

## **Item 3. DEFAULTS UPON SENIOR SECURITIES**

(a) Not applicable.

(b) Not applicable.

## **Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

## Item 5. OTHER INFORMATION

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

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## Item 6. EXHIBITS

Exhibit No.	Title of Document
31.1	<a href="#"><u>Section 302 Certification of Chief Executive Officer (filed herewith)</u></a>
31.2	<a href="#"><u>Section 302 Certification of Principal Financial Officer (filed herewith)</u></a>
32.1	<a href="#"><u>Section 906 Certification of Chief Executive Officer (filed herewith)</u></a>
32.2	<a href="#"><u>Section 906 Certification of Principal Financial Officer (filed herewith)</u></a>
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
101.DEF	XBRL Taxonomy Extension Definitions Linkbase (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (filed herewith)
104.1	The cover page of this Quarterly Report on Form 10-Q, formatted in Inline XBRL.

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## SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ClearOne, Inc.,  
(Registrant)

By: /s/ Derek L. Graham

Derek L. Graham  
Chief Executive Officer  
(*Principal Executive Officer*)

August 10, November 8, 2023

By: /s/ Narsi Narayanan

Narsi Narayanan  
Chief Financial Officer  
(*Principal Accounting and Principal Financial Officer*)

August 10, November 8, 2023

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## EXHIBIT 31.1

### CERTIFICATION

I, Derek L. Graham, certify that:

1. I have reviewed this quarterly report of ClearOne, Inc. on Form 10-Q;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: */s/ Derek L. Graham*

Derek L. Graham

Chief Executive Officer

*(Principal Executive Officer)*

August 10, November 8, 2023

**CERTIFICATION**

I, Narsi Narayanan, certify that:

1. I have reviewed this quarterly report of ClearOne, Inc. on Form 10-Q;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Narsi Narayanan

Narsi Narayanan

Chief Financial Officer

*(Principal Accounting and Principal Financial Officer)*

August 10, November 8, 2023

## EXHIBIT 32.1

### CERTIFICATION OF CHIEF EXECUTIVE OFFICER

**Pursuant to 18 U.S.C. Section 1350,  
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Derek L. Graham, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended **June 30, 2023** **September 30, 2023** fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

By: /s/ Derek L. Graham

Derek L. Graham

Chief Executive Officer

*(Principal Executive Officer)*

August 10, November 8, 2023

## EXHIBIT 32.2

### CERTIFICATION OF CHIEF FINANCIAL OFFICER

**Pursuant to 18 U.S.C. Section 1350,  
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Narsi Narayanan, certify, to my best knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of ClearOne, Inc. on Form 10-Q for the quarter ended **June 30, 2023** **September 30, 2023**, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ClearOne, Inc.

By: */s/ Narsi Narayanan*  
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Narsi Narayanan  
Chief Financial Officer  
*(Principal Accounting and Principal Financial Officer)*  
August 10, **November 8, 2023**

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